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China, Peoples Republic of

Product Brief

Beverage: Soft Drinks Industry

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Approved by:

Dr. Sam Wong

U.S. Consulate Guangzhou

Prepared by:

Victor Wang (Contractor)

Report Highlights:

The soft drinks industry in China is highly competitive and complex. The more affluent Chinese consumers in coastal cities are eager to try new products.

Includes PSD changes: No
Includes Trade Matrix: No

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1. Market Summary

The beverage (soft drinks) industry is a significant component of the food industry in China, accounting for 18.1% of all food manufacturing enterprises and 26.2% of total food industry revenue in 1999.

China's beverage (soft drinks) industry includes the production of soda, natural mineral water, fruit and vegetable juice.

Currently there are about 3,000 to 4,000 beverage (soft drinks) manufacturers in China, and 800 of them are large or medium-sized. However, only several dozens of them represent and influence the development of the whole industry.

List of Famous Beverage Manufacturers in China

	Turnover in 1998 (RMB '000)
Hangzhou Wahaha Group Co.	2,865,378
Guangdong Jianlibao Group Co. Ltd.	1,478,366
Guangdong Swire Coca Cola Co. Ltd.	841,100
Guangdong Jinri Group Co. Ltd.	1,445,654
Shanghai Shenmei Beverage and Food Co. Ltd.	2,441,356
Shanghai Pepsi Cola Beverage Co. Ltd.	864,827
Hebei Lulu Group Co. Ltd.	540,867
Hainan Coconut Palm Group Co. Ltd.	768,721
Shanghai Meilin Zhengguanghe Group Co. Ltd.	282,882

The Chinese Government attaches great importance to the development of the beverage industry. Through various methods, it encourages the beverage industry to actively develop more types of beverage and increase the production.

In 1999, China's beverage (soft drinks) production was 11.86 million tons, keeping the rising momentum of the last few years and increasing by more than 20% than 1998. The production in Guangdong ranked the first, accounting for 20% of the national production. Zhejiang ranked second, accounting for 17%. The production was 2.5 million tons and 1.5 million tons, respectively.

The Basic Conditions of the Beverage Industry in 1999 were as follows:

	Unit	1999	Per Cent Increase over 1998
Total Assets	Billion RMB	260.07	9.3
Total Debts	Billion RMB	157.66	8.8
Turnover	Billion RMB	152.80	5.3
Total Profit	Billion RMB	8.24	10.0
Value of Finished Products	Billion RMB	15.66	6.7
Average No.of Employees	Million	1.083	-1.14

Soda accounts for more than one-half of the total production. Bottled drinking water and mineral water account for about 20%. The remainder includes dairy beverage, juice and plant protein beverages and Chinese tea.

II Road Map for Market Entry

A. Entry Strategy

The Chinese Government stipulates that all food (including beverages) on sale must have a health certificate issued by the Food Health Administration. This is the primary condition for entering China's beverage market. After obtaining the health certificate, the beverage-manufacturing enterprises usually distribute their products through the following common methods of food distribution:

Distributing Directly.

The manufacturers sell their products through their own sales network. The advantage is that the manufacturers can meet the retailers face to face, learn the market condition and trends, and adjust their production accordingly. They can also receive a major portion of the profit. The drawback is the manufacturers' required diversion from product development to sales promotion and maintenance.

Distributing through Wholesalers.

The wholesalers buy their products from the manufacturers and resell them to the retailers. The manufacturers minimize their investment but they have no control over pricing or product promotion. The working relationship and the trust level between the manufacturers and the wholesalers will have a direct impact of the sale of the product.

Distributing through Agents.

The manufacturers contract with sales agents to distribute the products through the network of the manufacturers or the agents.

A foreign soft drinks manufacturer might establish its business in China through joint venture with a Chinese partner who has an extant distribution and sales network. The partners need to have long-term and mutual commitment to equitable profit sharing. Direct contact and forthright negotiation between the potential partners are essential for establishing and developing a working business relationship.

B. Market Structure & Sector Trends

Various types and numerous brands of beverage are on sale in China. People of Northern China and Southern China have different preferences for soft drinks. As expected, some brands are more popular. For mineral water, *Wahaha* of the Zhejiang Wahaha Group, *Robust* of the Guangdong Jinri Group, *Nongfu Shanquan* of the Zhejiang Yangshengtang Co., and *Kesai* of the Beijing Kesai Mineral Water Co. have preeminent performance in the market. For Soda, *Coca Cola* and *Sprite* produced by a joint venture in Beijing, *Jianlibao* of the Guangdong Jianlibao Co. and *Red Bull* of the Red Bull Vitamin Co. take up most of the market share. For fruit and vegetable juice, *Lulu* of the Hebei Lulu Group, *Big Lake* of the Tianjin Big Lake Co., *Rumeng* of the Beijing Osis Co., *Huiyuan* of the Beijing Huiyuan Food Co. and *Coconut Palm* of the Hainan Coconut Palm Group are outstanding brands.

The “Strategic Campaign” of famous brands of beverage launched in 1998 had identified that the Guangdong Jianlibao Group, the Hainan Coconut Palm Group Co. Ltd. and the Hebei Lulu Group Co. Ltd. as enterprises ready for international competition. In addition, the Chinese Cable TV has been promoting nine brands of soft drinks to a national audience. The brands and their manufacturers are:

Manufacturer	Brand
Natural Mineral Water	
Qingdao Laoshan Mineral Water Co. Ltd.	<i>Laoshan</i>
Shenzhen Yili Mineral Water Co. Ltd.	<i>Yili</i>
Haikou Coconut Palm Mineral Water Co. Ltd.	<i>Coconut Palm</i>
Isabel Mineral Water Hainan Co. Ltd.	<i>Isabel</i>
Natural Beverage	
Lulu Group Co. Ltd.	<i>Lulu Orgeat</i>
Beijing Huiyuan Juice Beverage Group Co.	<i>Huiyuan Juice</i>
Xiamen Huarong Food Co. Ltd.	<i>Lufang Juice</i>
Hebei Xuri Group Co. Ltd.	<i>Xurisheng Tea Beverage</i>
Hainan Hengtai Mango Industrial Shareholding Co. Ltd.	<i>Hengtai Juice</i>

Foreign beverage brands perform well in China’s market. In 1998, there were 21 Coca Cola filling factories and 12 Pepsi Cola filling factories, with a total production of 2.7 million tons of beverages. The total profit and total profit tax of the foreign enterprises had an increase of 20.4% and 13.3%, respectively.

China has a large population. Chinese beverage consumption pattern include

1. People of different ages like different kinds of beverage; young people like soda and children like fruit and vegetable juice.
2. People of different areas have different preference. *Zhengguanghe* sells well in eastern China; *Jianlibao* is popular in the Guangdong Province; *Kesai* and *Huoteman* are more popular in Beijing and the eastern China, respectively.
3. Different types of soft drink have different consumer groups. Families are the major consumers of purified water and tea, hotels and restaurants for soda, and offices for mineral water.

The per capita annual consumption of urban families on beverage (including tea) is 1.9 kg. Thus, the total annual consumption of urban families on soft drinks is about 1 million tons. Add to this the consumption of as hotels and restaurants and the population, the total consumption may reach 10 million tons or more.

III & IV Competition & Best Products Prospects

In 1999, China's major export trade partners are Germany, the Netherlands, the United States, Australia, and Hong Kong, and the major import trade partners are Germany, Brazil and the United States.

Statistics on the Import and Export of Beverages in 1999

Product Code	Commodity	Export		Import	
		Quantity (kg)	Amount (US\$'000)	Quantity (kg)	Amount (US\$'000)
20091100	Refrigerated Orange Juice	1,387,650	1,662	5,998,780	6,956
20091900	Unrefrigerated Orange Juice	999,007	880	3,164,396	1,505
20092000	Grapefruit Juice	232,239	276	494,732	383
20093000	Other Unmixed Citrus Juice	56,581	92	130,258	155
20094000	Pineapple Juice	1,642,324	2,007	298,645	221
20095000	Tomato Juice	45,692	11	329,542	99
20096000	Grape Juice, Including Grape Juice for Wine Brewing	160,862	580	1,417,733	1,316
20097000	Apple Juice	98,699,636	75,560	385,529	297
20098010	Other Unmixed Fruit Juice	34,990,989	30,833	2,759,434	1,821
20098020	Other Unmixed Vegetable Juice	1,514,502	2,353	166,006	112
20099010	Mixed Fruit Juice	38,570	87	690,606	459
20099090	Mixed Vegetable Juice, Fruit and Vegetable Mixed Juice	224,657	171	60,813	68
21011100	Coffee Concentrate	20	0	20,263	112

22011200	Products Made of Coffee Concentration or Using Coffee as the Basic Ingredient	7,623,577	18,423	98,939	315
22011010	Unflavored and Unsweetened Mineral Water	5,049,013	919	3,888,240	912
22011020	Unflavored and Unsweetened Soda	--	--	19,250	23
22019010	Unflavored and Unsweetened Natural Water	767,071,538	296,334	335	36
22019090	Unnamed, Unflavored and Unsweetened Water, Ice and Snow	34,72	19	2,462	25
22021000	Flavored and Sweetened Water	23,517,089	14,070	899,595	414
22029000	Other Non-alcohol Beverages	41,356,213	22,001	5,843,943	2,408

5. Summary and Post Contact

The soft drinks industry in China is highly competitive and complex. The more affluent Chinese consumers in coastal cities are eager to try new products.

The information Center, China's Statistical Bureau, provided data for this report. We welcome inquiries from interested U.S. producers and exporters. Our telephone number is 011-8620-8667-7553. And our fax number is 011-8620-8666-0703.